



PRIME CENTRAL LONDON: SAFETY IN NUMBERS

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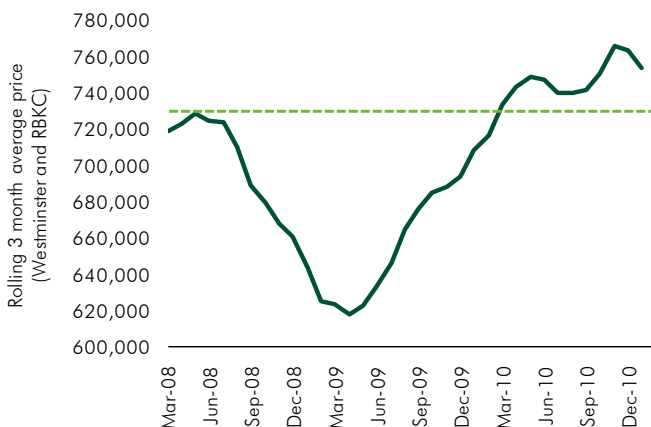
OVERVIEW

Residential property prices in Prime Central London are steadily recovering from the recent downturn. While largely supported by foreign demand, domestic demand is beginning to play a more significant role. However, the ongoing strength of the market largely depends on London remaining a globally attractive place to do business; despite its bad press, new taxes on wealth in the UK are unlikely to have a significant negative impact. The fundamental attractions like political stability, work/leisure mix and education remain strong. International demand is likely to be further buoyed by recent turbulence in the Middle East and by rising inflation in Asia. These uncertain times make London property more attractive, even before considering the favourable exchange rates and the underlying investment credentials. Despite this, there remains a fundamental shortage of supply. As a result newly built housing is being absorbed quickly into the market and premiums are being achieved above local embedded value.

PRIME IS LEADING THE RECOVERY

In the first quarter of 2011, demand for Prime Central London (PCL) residential property has strengthened further. This is particularly true at the more expensive end of the market where supply remains severely constrained. In addition, there has been a surge in demand for properties in the mid part of the market - particularly freehold houses. In contrast, most activity last year was centred around the lower-end apartment market. Despite the market being largely underpinned by overseas buyers, the latest RICS survey suggests a noticeable pick-up in domestic demand in PCL. This reflects growing sentiment (and bonuses) in London's financial services industry. For example, the latest Financial Services Survey from CBI/PwC shows firms consider business levels to be at the highest rate since the financial crisis began in September 2007.

PCL House Prices above previous peak

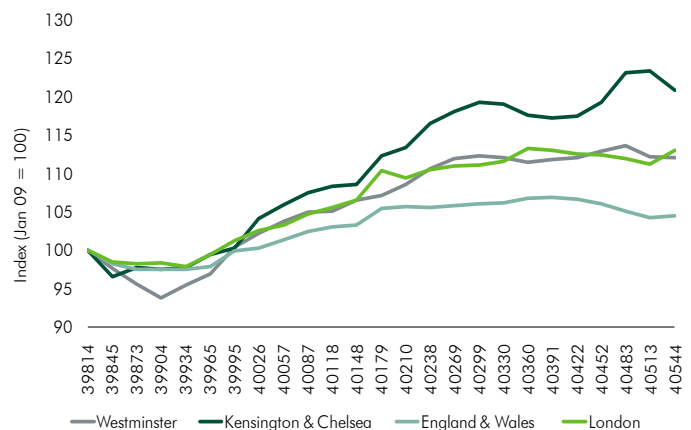


Source: Land Registry

PCL PRICES FULLY RECOVERED FROM THE TROUGH

Demand is growing not only in the traditional heartland of PCL, adjacent to Hyde Park, but also further rippling outward to St John's Wood, Chelsea and even further afield in Hampstead and the South Bank. Despite this growing demand, supply remains constrained. According to Moliar there are just three schemes currently under construction in Kensington and Chelsea and seventeen in Westminster; combined, there are around 1,747 units under construction in both boroughs. This supply and demand imbalance continues to support prices. Despite monthly volatility in prices, the general trend is upwards. Prices have recovered by nearly 20% in Westminster and 24% in Kensington and Chelsea since the trough. Prices now stand at £628,125 and £889,926 respectively. In contrast, growth across the rest of London has been slower, with prices still 3% beneath their peak. The latest RICS Survey confirm the general upward trend in prices.

Index of House Price Change (Jan 2009 = 100)



Source: Land Registry

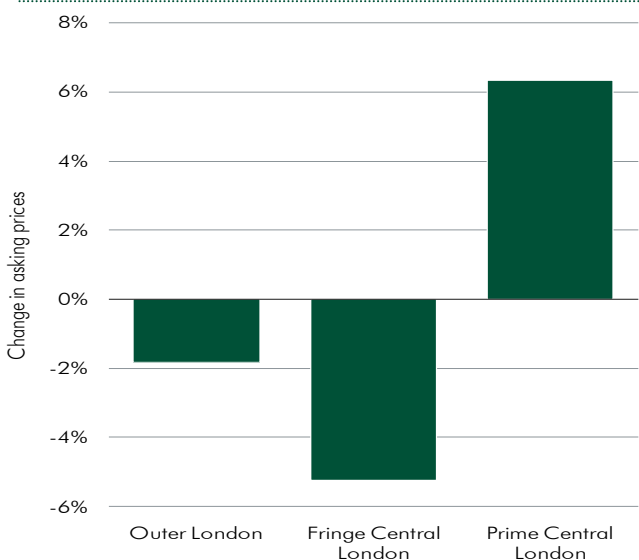
STRONG NEW BUILD SALES IN PCL

The fastest selling schemes in PCL in the first quarter of 2011 were 375 Kensington High Street and Regents Place by British Land. These two schemes sold at a rate of twelve and six units per week respectively. In addition, The Lancasters sold well recently.

ASKING PRICES RISING

In line with rising demand, developers have been increasing asking prices in PCL. According to Molior, there was a 6% increase in the asking price of properties that were on sale in December 2010 and still for sale at the end of March 2011. For example, two PCL developments both from Manhattan Loft Corporation have seen asking prices raised. These are Chelsea Apartments, developed with the Trevor Osbourne Group and Fitzrovia Apartments with Ridgford Properties. Conversely outside of the Prime centre of the capital, asking prices have been lowered, reflecting their greater dependence on national market forces. In contrast, asking prices fell by 5% in Fringe Central London.

Asking price changes Q4 2010 vs Q1 2011



Source: Molior

BIG SCHEMES IN THE PIPELINE

Of the twelve schemes currently at application stage in PCL, the two largest are Qatari Diar's 240 unit scheme at Chelsea Barracks and Brookfields 224 unit scheme at West Cromwell Road. The plans for Chelsea Barracks have received a great deal of coverage owing to the Prince of Wales's objection to Qataris designs.

NEO BANKSIDE & THE LANCASTERS

Two schemes in particular have been selling well in recent months. Grosvenor and Native Lands "Neo Bankside" development saw 17 sales in the last quarter of 2011. The scheme is situated on the South Bank near Blackfriars Bridge. While not strictly in Prime Central London, the location is just the sort of area that is taking the overflow of demand from the prime Centre. The scheme was successfully marketed in Asia helping it to achieve asking prices which range from £640,000 to £5,250,000 with an average of just over £2 million; this equates to an average of £1,341/sqft.

"The Lancasters" scheme on the north side of Hyde Park is also selling strongly. Developed by Minerva and Northacre, 46 of the 74 units have been sold. The scheme has one, two and three bedroom apartments as well as a handful of two bed houses. The scheme is extremely popular with Asian purchasers and also with Russian and Middle Eastern buyers.

City of Westminster Planning Pipeline

	Schemes	Units
Applications Pending	7	570
Permission Granted*	17	1752
Under Construction	17	1179

Kensington and Chelsea Planning Pipeline

	Schemes	Units
Applications Pending	5	573
Permission Granted*	11	1315
Under Construction	3	568

Source: Molior

* Incl. outline and detailed permission and those where construction may have started

The West Cromwell Road application is currently in abeyance and is unlikely to see action any time soon. Work has started on neither, but at present Chelsea Barracks seems much more likely to start before West Cromwell Road.

There are 19 sites in PCL which have full planning permission but have not yet started on site. The newest of these is 82-84 Piccadilly by Core, which received planning permission in the first week of April 2011. With views over Green Park, the scheme is likely to prove very popular with PCL's typical foreign buyers.

The largest of these sites is Portobello Square (Wornington Green Estate) by Catalyst Housing Group which will provide 417 private units in North Kensington, just outside of the normal Prime area. Following demolition, construction starts in earnest in Q2 2011 with the first units on track to complete in March 2012.

LONDON – A CHINESE TAKEAWAY

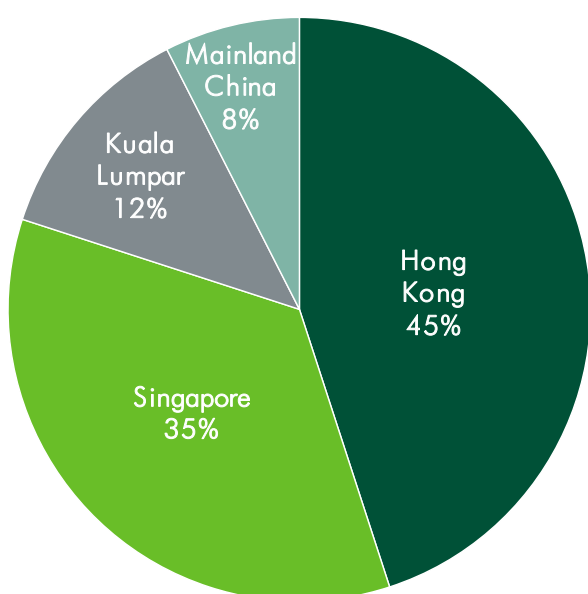
There are several schemes in Prime Central London that have sold well in Asia in recent months. For example, Marconi House by Galliard Homes was launched in Asia in early November 2010. This sold 59 of 79 units by the year end at between £1,500 to £2,200 psf. One key attraction of the scheme was its central location, slightly outside of the traditional Prime area, but very much in the centre of London’s entertainment district. In addition, 80 units have sold recently at Argent’s Kings Cross scheme. Both Regent Place and 2 Hyde Park have successfully sold off plan in Asia.

Last year was also relatively buoyant in Asia. The “Bramah” building of Grosvenor Waterside has also been popular in Asia. Developed by Qatari Diar it sits on the north side of Chelsea bridge well within the traditional deflection of PCL. Bramah launched in Asia during the last week of June 2010. The scheme did well in terms of both numbers and GDV - 50 units sold - and saw most success in Singapore. The scheme achieved £1200psf.

Central Saint Giles by United House Developments sits just north of Covent Garden. UHD went on tour in SE Asia in February 2010 where it sold well. Prices were achieved ranging from £1,100/sqft to £1,800/sqft. 85% of the units (48) exchanged during the three sales weekends and a further three units exchanged soon after leaving just five unsold.

CB Richard Ellis latest findings show that 45% of all off-plan sales of PCL property in the Far East happened in Hong Kong. With a further 35% in Singapore.

Sales of London property by place of Far East exhibition



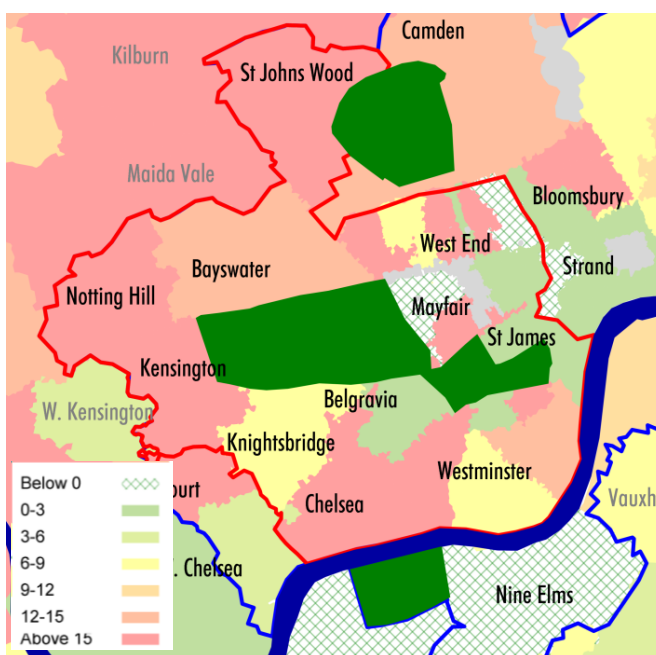
Source: CB Richard Ellis

LONDON IS STILL BEST FOR BUSINESS

The Prime Central London market has long been dependent on London’s historical reputation as a desirable place to do business. A generally positive attitude towards wealth in the UK has attracted the financial services industry and its personnel. Recently, however, the coalition government has introduced a raft of policies in response to growing anti-banking sentiment.

Some fear the new 50% income tax rate, bonus tax and stricter non-domicile rules threaten London’s appeal.

Flat Price Change between 2009 and 2010 (%)

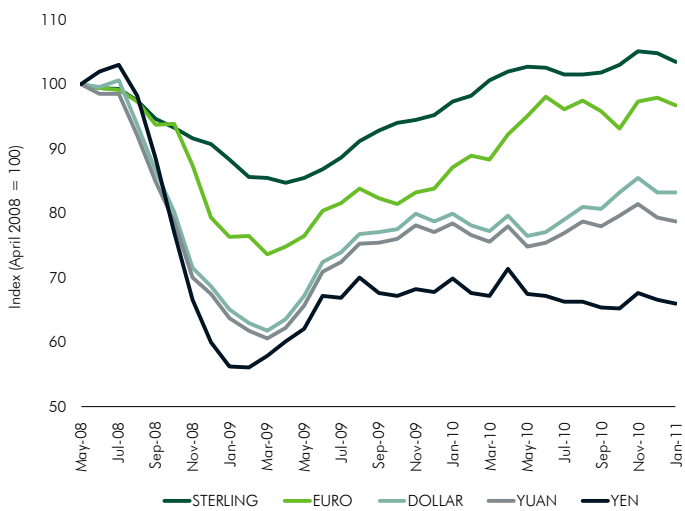


Source: CB Richard Ellis, Land Registry

However, even with these new conditions, the fundamentals which underpin London’s desirability remain firmly intact. The business, political and education infrastructure are still stable. As well as a great place to do business, the city is also a great leisure destination and education centre. It also benefits from first rate business infrastructure and being situated between the time zones of New York and Tokyo. Even through the recent economic turbulence, the market was buoyed in 2010 by the weak pound which empowered international buyers.

While London is facing increasing competition from places like Shanghai, it is not the case that world cities are desperate to be the new home of British banks. The governments of these nations are reluctant to expose their taxpayers to having to bail them out if they fail again.

Currency Impact on House Price Change May 2008 – Jan 2011



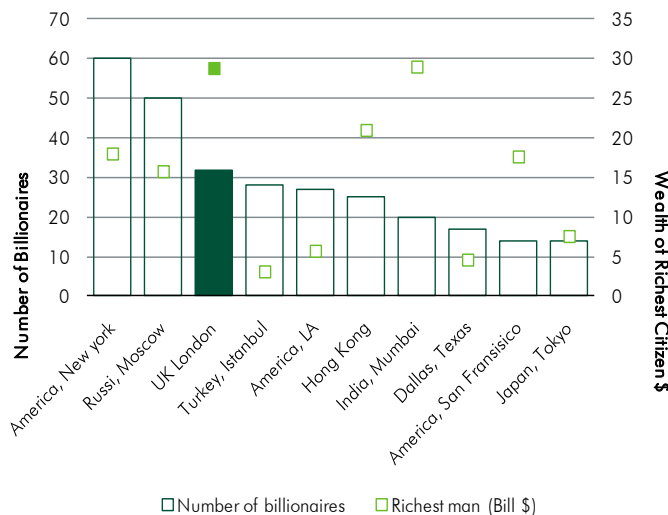
Source: Bank of England, Land Registry

A (FOREIGN) BILLIONAIRES PLAYGROUND

Looking at who has the capacity to buy at the very top end of the market, London is the 2011 billionaire capital of Europe. It has 32 resident billionaires, the third largest number in the world behind New York (60) and Moscow (50). However, more interesting is that more than half of London billionaires are foreign; this is much less common in Moscow and New York and demonstrates the attractiveness of London to foreigners at the very highest levels.

According to Forbes, the number of super-wealthy individuals in China and India is also growing particularly fast. Of 2010's 97 newcomers, 62 were from Asia, "a region that saw swelling stock markets and several large public offerings during the past year," Forbes Magazine said. There are now 64 billionaires in China, compared with 28 the previous year. Many anticipate that they the Chinese will become 'the new Russians' as major players in the Prime London property market.

Dollar billionaires by city



CONCLUSION

Demand in Prime Central London (PCL) strengthened in 2010 because the weak pound attracted foreign investment. So far in 2011, this has been complemented by a rise in domestic demand. Indeed, asking prices were 6% higher in the first quarter of 2011 compared with the 2010 quarterly average in PCL. In contrast, asking prices elsewhere in London had, more often than not, fallen.

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